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August 10, 2005

TO: Executive Committee, Transportation Authority of Marin

RE: Strategic Plan Process – Policy Issues – Agenda Item 5

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Dear Executive Committee:

In our on-going development of the Strategic Plan, staff continues to seek feedback from the Executive Committee on questions related to the allocation of Measure A funds. An updated list of questions and draft responses reviewed by the Executive Committee to date, are included as *Attachment A*.

This month, staff seeks feedback on the following:

Attachment A: Question 2 – \$30 M Bond Issue

Last month, the Executive Committee concurred with the draft response that \$25 M of the \$30 M bond assumed in the Sales Tax Expenditure Plan is dedicated to the 101 Gap Closure Project (Question 2.a, Part 1). The Committee also concurred with the draft response that the Authority should retain Measure A “off the top” funds in an amount sufficient to adequately secure anticipated debt financing plus anticipated issuance costs (Question 2.b). In order to adopt a strategy and thereby establish the amount of off the top funds retained for debt financing, staff recommended a review of the 101 Gap Closure Project schedule and funding plan.

The current Segments 3 and 4 cost estimate by fund source is included in *Attachment B*. However, we are still faced today with several unknowns that may significantly modify the funding plan for this project. TAM continues to pursue additional State funding. Attachment B includes an estimate for Measure A funds if the CTC approves additional STIP, SHOPP and TCRP funds later this month. We are also still finalizing project cost estimates. Caltrans has provided estimated project costs, however, right-of-way acquisition has not been finalized and construction costs will be further specified when construction bids are received. Furthermore, staff is working on the inclusion of additional soundwall soundproofing, bike path and possible modifications to soundwall locations.

The following critical dates will provide further information on availability of funds and anticipated project costs:

Making the Most of Marin County Transportation Dollars

Estimated Date	Activity
August 18, 2005	1. CTC Action to award TCRP, SHOPP and STIP funds for Segment 3.
September 2005	2. Selection of bike path and soundwall layout alternative and associated cost estimate
October 2005	3. Selection of soundwall soundproofing material and associated cost estimate.
December 2005	4. Right-of-way acquisition substantially complete.
December 2005	5. Construction bid opening Segment 3.
December 2006	6. Construction bid opening Segment 4.
December 2008	7. Roadway construction substantially complete Segment 3.
December 2008	8. Roadway construction substantially complete Segment 4.
2010	9. Landscape construction substantially complete all Segments.

Staff has provided as *Attachment C*, a preliminary estimate of available Measure A funds by strategy based on a \$30 M bond issued in FY 06/07. Staff will review the availability chart and Gap Closure Project schedule with the Committee.

Attachment A: Question 4 – Reserve Fund

This question has been expanded to ask “How should the Authority plan for and manage potential fluctuations in sales tax revenue?”

Draft Response: The Authority has three methods of planning for and managing the risks associated with fluctuations in sales tax revenues and the potential negative impacts they would have on programs and projects:

- 1) Sales tax revenue forecasting
- 2) Establishing a Reserve Fund
- 3) Requiring or recommending project sponsors to have contingencies/reserves in their program or project budgets.

1) Sales Tax Revenue Forecasting

One of the most important ways for the Authority to assist project sponsors in making realistic plans for programs and projects is to provide accurate revenue forecasts. Given that the Measure A tax is a new tax for Marin County, and given the recent volatility in the regional economy, a conservative (or low) revenue estimate will provide the Authority and project sponsors with the most reliable estimate upon which to build financial plans. As a sales tax receipt history is built over time, the forecast can be updated with each Strategic Plan update. The sales tax forecasting methodology and recommended forecast is provided as *Attachment D* to this report.

2) Establishing a Reserve Fund

The purpose of establishing a reserve is to not only ensure that projects included in the Expenditure Plan are implemented on time, but to allow for fluctuations in annual sales tax receipts that might negatively impact ongoing operating programs.

The practices of other sales tax authorities indicate that formal reserves are established by some authorities and are not by others. The authorities that have established formal reserves have done so primarily to provide a means for addressing sales tax receipts that are below forecasted amounts. San Francisco County Transportation Authority sets aside a reserve of 10% of annual sales tax revenue in year 1 of their Strategic Plan and maintains that level throughout the life of the plan. An additional reserve of one to two years collections is provided to allow for fluctuations in sales tax receipts, project delivery, and variable financing requirements.

Contra Costa Transportation Authority (CCTA) accumulates a reserve from its Measure C sales tax revenues based on available surpluses. The reserves built up over several years and were allocated based on requests with justifications and approved by the CCTA Board. The new CCTA Measure J sales tax, with collection starting in 2009, requires a 3% annual fund balance for certain categories such as transit operations. Unlike Measure C, Measure J requires that this fund balance be accounted for and tracked by specific category.

Alameda County Transportation Improvement Authority (ACTIA) and Sonoma County Transportation Authority (SCTA) do not establish a formal reserve for their programs. However, SCTA's Strategic Plan indicates that a fund balance will remain each year of the plan under current programming assumptions. Additionally, all agencies establish separate reserves as required for debt financing and for self-insurance requirements.

For the first Measure A Strategic Plan it would be prudent to establish a reserve fund. Staff recommends that 5% of the net sales tax revenues be set aside annually for the first 5 years of the plan be included in the financial model. TAM can then obtain feedback from project/program claimants on how this may impact them in the short-term. Should sales tax receipts fall below planned amounts, the reserve could be reduced by amounts needed to maintain planned revenues to programs and projects. Any allocation of the reserves would be counted towards the substrategy to which the allocation was made. Adjustments to future year allocations would be made as necessary to maintain the substrategy percentage shares within a five-year period.

A reserve fund policy should be developed and should address the methodology to be used to determine the target reserve amount to be set-aside and how and when reserves would be allocated. The balance and duration of contributions to the reserve fund would be reviewed with each update of the Strategic Plan.

3) Project/Program Contingencies

Project/program sponsors will develop budgets for their Measure A projects and programs. According to best practices (and indeed some financial requirements), all budgets should be developed with appropriate contingencies to account for cost or revenue variances. The

Authority can ensure that sponsors are planning for project/program contingencies through recommended techniques in the Measure A cooperative agreements.

Attachment A: Question 6 – Borrowing

Can borrowing occur between strategies and substrategies? Will interest be charged to the substrategy or strategy borrowing the funds?

Draft Response: Yes, to the extent such borrowing assists in avoiding debt financing. Interest equal to the investment interest that would have accrued to the funds should be charged to the strategy or substrategy borrowing funds and accrued to the substrategy loaning the funds.

In certain years a substrategy may require more than its annual sales tax allocation, yet another substrategy may not spend its full allocation. Some substrategies may have “saved” their annual allocations and maintained a positive balance. In these circumstances, inter-strategy and inter-substrategy loans may be appropriate to address short-term cash flow needs. Such loans will be especially beneficial to the Measure A program when they are undertaken to avoid incurring debt financing costs.

Sonoma County Transportation Authority has established a policy for inter-program borrowing to maximize program efficiency. The policy suggests that the interest on such loans be tied to the assumed short-term investment rate applicable to the annual fund balance.

Attachment A: Question 7 – Interest

If a balance exists, how should interest be accrued?

Draft Response: Interest should be accrued to the substrategies if a fund balance exists. The Expenditure Plan allocates revenue at the substrategy level, and to maintain the commitment of the sales tax and any further revenue it generates, interest income should be allocated to the substrategy.

Some substrategies are likely to not be allocated the full amount of sales tax revenue available to them in any given year. Measure A fund balances will accrue interest at the County pool investment rate. Interest on fund balances would be applied to the substrategy for allocation consistent with the Expenditure Plan requirements.

It appears that SCTA, ACTIA, and CCTA accrue interest to the programs or projects for which sales tax is made available. SFCTA uses a slightly different approach where interest is accrued on the sales tax program (total) balance and allocated at the discretion of the Board.

Recommendation

Staff recommends that the Executive Committee discuss strategic plan policy related questions and provide feedback.

Respectfully Submitted,

Craig Tackabery
Executive Director

Attachments:

Attachment A – Draft Responses to Strategic Plan List of Policy Issues for Allocation of Measure A Funds

Attachment B – Highway 101 - HOV Gap Closure Funding Plan

Attachment C – Measure A Sales Tax 5-year Availability Estimate

Attachment D – Sales Tax Forecasting Methodology and Recommended Forecast

ATTACHMENT A

Draft Responses to Strategic Plan List of Policy Issues for Allocation of Measure A Funds

Updated for August 10, 2005 Executive Committee Meeting

The Sales Tax Expenditure Plan, page 2, states tax revenue available is net expenses for administration, debt service and bond issuance costs. Per the plan, *Net Revenue* is assumed to be sales tax revenue collected less:

- Board of Equalization administration fees
- 1% of sales tax revenue generated for TAM administrative salaries and benefits
- 4% of sales tax revenue generated for TAM administration
- Debt service and bond issuance costs

The above costs will be paid for from sales tax revenues, or “off the top”, before monies are made available for strategies. The following questions pertain to the off the top costs:

1. \$155,000 was spent on election costs. Should these costs be funded by Measure A or by other sources available to TAM?

Draft Response: Yes, election costs should be funded by Measure A and taken “off the top”. Per PUC 180203 (a), these are eligible Measure A costs. (EC July 2005)

2. The Sales Tax Expenditure Plan assumes a \$30 M bond issue in the first year of the sales tax. Questions related to debt financing are:
 - a) Of the \$30 M assumed to be bond issue off the top, is it assumed approximately \$25 M is dedicated to the 101 Gap Closure Project and \$5 M to other eligible projects?

Draft Response: Yes, in the \$30 M bond issue assumed in the Sales Tax Expenditure Plan, it is assumed approximately \$25 M is dedicated to the 101 Gap Closure Project and \$5 M to other eligible projects. (EC July 2005)

If yes and \$25 M is not needed for the Gap Closure Project, does the available off the top debt financing capacity increase for other eligible projects?

Draft Response: (Under discussion EC July & August 2005)

- b) If debt financing is not issued in the first year of the sales tax, what amount should be assumed retained “off the top” each year, until debt financing is issued, assuming it will occur?

Draft Response: An amount sufficient to adequately secure anticipated debt financing plus anticipated issuance costs. (EC July 2005)

- c) If initial debt financing is issued for less than \$30 M, should the cost associated with issuance of a lower amount be assumed the only cost taken “off the top”, or should the SP assume additional debt financing (up to a total of \$30M) may occur later in the Measure program, and the associated cost will be “taken off the top”? If yes, how should the SP account for potential additional debt financing costs over time?

Draft Response: (To be discussed at a later date.)

- 3. The Expenditure Plan allows for up to 1% of revenues generated will pay for salaries and benefits for administrative employees, and the plan assumed 4% of revenues generated will pay for other administration costs, totaling 5% annual administration cost. Given TAM is in start-up mode and administration costs can not be fully estimated, should the first SP assume a 5% administration cost taken off the top over the life of the Measure? If yes, can 5% be an average for administration costs over the first 5 years, allowing for possible early, one-time start-up costs?

Draft Response: Yes, a 5% annual off the top administration cost should be assumed over the life of the Measure. (EC July 2005)

The plan should:

- a. Allow for 1% of revenues generated per year for salaries and benefits for administrative employees, and
- b. Assume an average of 4% of revenues generated for other administrative costs over the first 5 years, then 4% per year, thereafter. (EC July 2005)

The Sales Tax Expenditure Plan, pages 7, 14, 17 and 22, identifies the percentage of **Net Revenues** available for programs and projects for all strategies, as summarized in the following table:

Strategy	Sub-Strategy	%	Estimated 20-year Revenue Available to Program Exp. (\$Millions)	Estimated 20-year Revenue Available to Capital Exp. (\$Millions)
1	Maintain and Expand Local Bus Transit Service	37%	\$ 122.69	
	Maintain and Expand Rural Bus Transit System	3%	\$ 9.95	
	Maintain and Expand Transit Services and Programs for Those with Special Needs	9%	\$ 29.84	
	Invest in Bus Transit Facilities for a Clean and Efficient Transit System	6%		\$ 19.90
2	Highway 101 Carpool Lane Gap Closure Project through San Rafael	7.5%		\$ 24.87
3	Local Roads for All Modes	13.25%	\$ 43.935	
	Major Roads and Related Infrastructure	13.25%		\$ 43.935
4	Safe Routes to Schools	3.3%	\$ 10.94	
	Crossing Guards	4.2%	\$ 13.93	
	Provide Capital funds for Safe Pathways to School Projects	3.5%		\$ 11.61
	Total:	100%	\$ 231.285	\$ 100.315

The following questions pertain to funding available for each strategy and sub-strategy within:

- The Sales Tax Expenditure Plan, Page 26, Section Bonding and Financing, 2nd paragraph, states "The Authority will also have the ability to set aside a reserve fund of up to 10% of the annual receipts from the tax for contingencies, to ensure that the projects included in this plan are implemented on schedule."

How should the Authority plan for and manage potential fluctuations in sales tax revenue?

Draft Response: (Under discussion EC July & August 2005.)

5. For sub-strategies identified as programs in table above, should allocations be made on the basis of actual cash received, per the percentages shown?

Draft Response: Yes. (Timing of disbursements to be considered at a later date.) (EC July 2005)

6. Can “borrowing” occur between strategies and substrategies? Will interest be charged to the substrategy or strategy borrowing the funds?

Draft Response: (Under discussion EC August 2005)

7. If a balance exists, how should interest be accrued?

Draft Response: (Under discussion EC August 2005)

8. Should any finance charges associated with use of funds in excess of “net revenues” available to each sub-strategy be charged against:
- a) Sub-strategy or
 - b) Strategy or
 - c) All strategies (i.e. “taken off the top”)?

Draft Response: a) sub-strategy (EC July 2005)

9. Should program management costs directly associated with a sub-strategy be charged against:
- a) Sub-strategy or
 - b) Strategy or
 - c) All strategies (i.e. “taken off the top”)?

Draft Response: a) sub-strategy (EC July 2005)

10. The Sales Tax Expenditure Plan, page 15, under Strategy 2 – Highway 101 Carpool Lane Gap Closure Project - states “If additional outside funding becomes available for this project in the future, sales tax revenues dedicated to this project would be redirected to transit projects outlined in Strategy 1.” At what point in the delivery of this project, should the decision be considered to redirect funds?

Draft Response: *(To be discussed at a later date, in conjunction with the Gap Project delivery schedule mentioned under Item 2 above.)*

The Sales Tax Expenditure Plan, page 26, states “The Authority will prepare an annual Work Program and Budget and a biennial Strategic Plan, which will identify the priorities for projects and the dates for project implementation based on project readiness, ability to generate matching or leveraged funds, and other relevant criteria.”

The following question pertains to the development of the Strategic Plan:

11. Should the first Strategic Plan commit to a Measure A funding schedule for all sub-strategies over a specified number of years? If yes, how many years?

Draft Response: The Strategic Plan should provide an estimate of the annual Measure A fund programming over the 20-year life of the measure. Near-term specificity in funding for all sub-strategies should be consistent with adopted claimant expenditure plans. (EC July 2005)

ATTACHMENT B
Highway 101 - HOV GAP Closure Funding Plan

Cost Estimate by Fund Source

Segment 3 - Central San Rafael

Phase	Fund Source					Total Estimated Cost
	STIP	GF-RIP	CMAQ	SHOPP	Measure A	
Construction			\$21,300,000	\$11,150,000	\$10,050,000	\$42,500,000
Construction Engineering		\$6,375,000				\$6,375,000
Project Management					\$465,000	\$465,000
Total	\$0	\$6,375,000	\$21,300,000	\$11,150,000	\$10,515,000	\$49,340,000

Segment 4 - Puerto Suello Hill

Phase	Fund Source					Total Estimated Cost
	STIP	GF-RIP	CMAQ	SHOPP	Measure A	
Environmental - Bikepath					\$75,000	\$75,000
Environmental - Soundwall					\$75,000	\$75,000
Design - Bikepath					\$700,000	\$700,000
Design - Soundwall					\$50,000	\$50,000
Design - Soundwall Soundproofing					\$25,000	\$25,000
Construction - Hwy 101	\$19,722,000					\$19,722,000
Construction - Bikepath					\$7,000,000	\$7,000,000
Construction - Soundwall					\$500,000	\$500,000
Construction - Soundwall Soundproofing					\$3,200,000	\$3,200,000
Construction Engineering		\$3,000,000				\$3,000,000
Project Management					\$465,000	\$465,000
Total	\$19,722,000	\$3,000,000	\$0	\$0	\$12,090,000	\$34,812,000

Segment 5 - Landscaping

Phase	Fund Source					Total Estimated Cost
	STIP	GF-RIP	CMAQ	SHOPP	Measure A	
Phase 5 A	\$2,175,000					\$2,175,000
Phase 5B	\$2,175,000					\$2,175,000
Total	\$4,350,000	\$0	\$0	\$0	\$0	\$4,350,000

Notes:

1. Amounts shown for soundwall and bikepath are "ballpark" estimates - as alternatives are further developed and design progresses - costs will be refined.

ATTACHMENT B
Highway 101 - HOV GAP Closure Funding Plan

Timing for Estimated Measure A Funds

Scenario 1 - Per Current Funding Plan

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	Total
Measure A Funds	\$60,000	#REF!	#REF!	#REF!	#REF!	#REF!

Scenario 2 - After Aug 17-18, 2005 CTC Meeting (if vote for STIP, SHOPP & TCRP funds is approved)

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	Total
Measure A Funds	\$60,000	#REF!	#REF!	#REF!	#REF!	#REF!

Notes:

1. If CTC vote for STIP, SHOPP and TCRP funds is approved, staff will pursue moving Segment 3 CMAQ funds to Segment 4.
2. TAM to provide Measure A funds as a local match for the City of San Rafael's EEMP landscape grant project.

ATTACHMENT C**Measure A Sales Tax Availability FY 04/05 through FY 09/10**

In millions, Year of Expenditure (YOE) Dollars

			<i>Five Year</i>							
			<i>Total</i>	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	
Strategy 1 - Transit										
1 Local bus service	37.0%	\$	30.77	\$ 1.65	\$ 5.33	\$ 5.84	\$ 5.84	\$ 6.04	\$ 6.07	
2 Rural bus system	3.0%	\$	2.38	\$ 0.13	\$ 0.41	\$ 0.45	\$ 0.45	\$ 0.47	\$ 0.47	
3 Special needs transit	9.0%	\$	7.39	\$ 0.40	\$ 1.28	\$ 1.40	\$ 1.40	\$ 1.45	\$ 1.46	
4 Bus transit facilities	6.0%	\$	4.88	\$ 0.27	\$ 0.84	\$ 0.93	\$ 0.93	\$ 0.96	\$ 0.96	
Strategy 1 Subtotal		\$	45.42	\$ 2.45	\$ 7.85	\$ 8.62	\$ 8.62	\$ 8.92	\$ 8.96	
Strategy 2 - 101 Gap Closure										
7.5%	\$	22.61	\$ 0.06	\$ 1.22	\$ 2.54	\$ 13.84	\$ 4.95	\$ -		
Strategy 3 - Local Infrastructure										
1 Major roads and infrastru	13.3%	\$	10.73	\$ 0.57	\$ 1.85	\$ 2.04	\$ 2.04	\$ 2.11	\$ 2.12	
2 Local roads	13.3%	\$	10.74	\$ 0.59	\$ 1.85	\$ 2.04	\$ 2.04	\$ 2.11	\$ 2.12	
Strategy 3 Subtotal		\$	21.47	\$ 1.17	\$ 3.70	\$ 4.07	\$ 4.07	\$ 4.22	\$ 4.24	
Strategy 4 - School Access										
1 Safe routes to schools	3.3%	\$	2.52	\$ 0.13	\$ 0.43	\$ 0.48	\$ 0.48	\$ 0.50	\$ 0.50	
2 Crossing guard	4.2%	\$	3.28	\$ 0.18	\$ 0.56	\$ 0.62	\$ 0.62	\$ 0.64	\$ 0.65	
3 Safe pathways to schools	3.5%	\$	2.69	\$ 0.15	\$ 0.46	\$ 0.51	\$ 0.51	\$ 0.53	\$ 0.53	
Strategy 4 Subtotal		\$	8.49	\$ 0.46	\$ 1.46	\$ 1.61	\$ 1.61	\$ 1.67	\$ 1.68	

Notes:

Assumes revenue collections begin April 1, 2005 and end March 31, 2025.

Assumes low sales tax revenue forecast, with no real or inflationary growth

BOE fees, TAM administration fees and debt service are netted from the gross sales tax receipts

Reserves of 5% annually are netted from the gross sales tax receipts

Program management fees have been netted from the sales tax available for each strategy except the Gap Closure project

Assumes a financing reserve is established in FY 06

Assumes a \$30 m bond is issued in FY 07

Under the current 101 Gap Closure financial plan only \$22.605 m is needed, leaving a total of \$7.395 m in bond proceeds available for programming to other capital projects

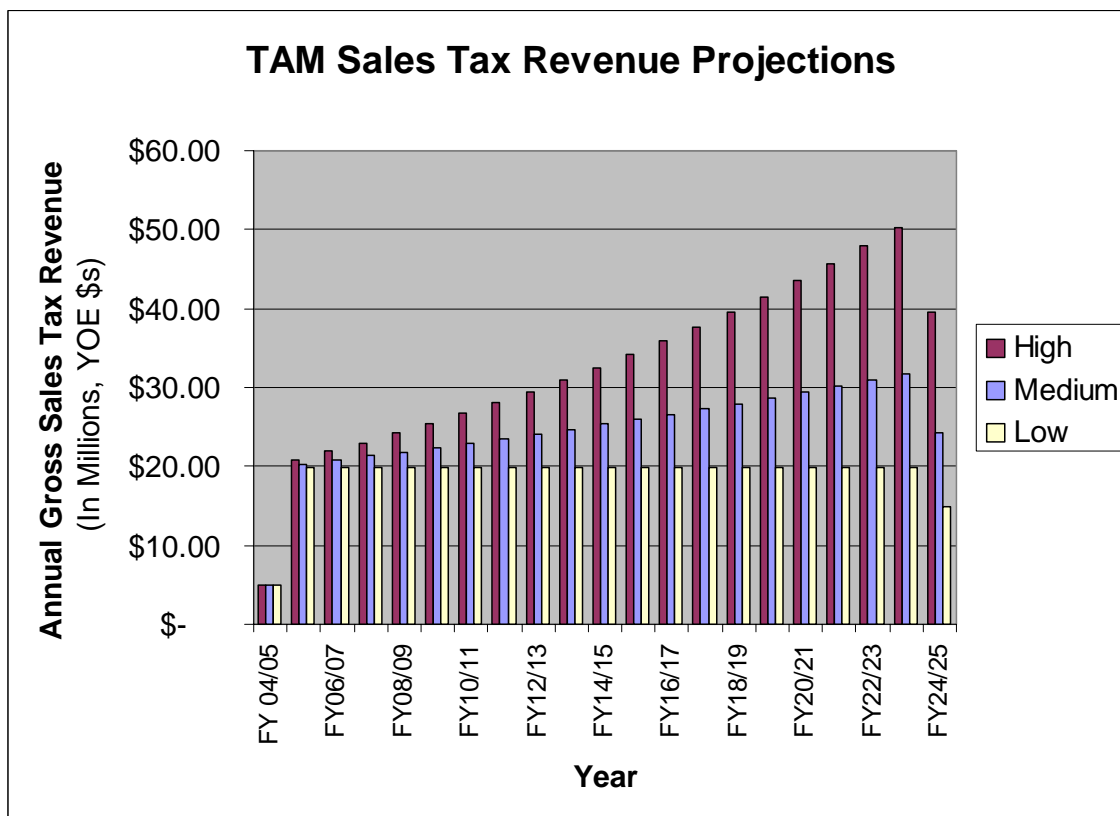
ATTACHMENT D

Sales Tax Forecasting Methodology and Recommended Forecast

Summary of Sales Tax Forecasts

A key component of the Strategic Plan process is the forecast for Measure A revenues. Staff, along with the Nolte team, has developed a range of forecasts for TAM sales tax receipts during the life of the tax. The forecasts have been developed based upon a combination of real and inflationary growth estimates. Applying these forecasts to the estimated base of taxable sales in Marin County results in projections of the revenues TAM and its recipient agencies can use for planning future programs and projects.

The following table and graph summarize the gross sales tax revenue projections during the twenty years of the tax:



Forecast Methodology

Sales tax growth rates are comprised of two elements: inflation and real growth. With inflationary growth, as the costs of similar goods increase, sales tax revenues (which are calculated as a percentage of costs) will increase as well. Real growth is based on economic and demographic growth, generally due to a combination of population growth, personal income, and household spending patterns. Both elements are inter-related and difficult to predict.

As described by the Center for the Continuing Study of the California Economy (CCSCE), “The key assumptions in projecting taxable sales are 1) projections of total personal income and 2) projections of the ratio of taxable sales to personal income.”¹ In addition to accounting for demographic changes, these aggregate economic variables are highly dependent on the condition of the local, state and national economies. As reported by CCSCE, “There is broad agreement among economists about California’s short-term economic outlook, but there is also broad agreement that these forecasts have significant uncertainty. Short-term forecasts are often wrong because external events change. **The short-term economic forecasts ... for California depend on achieving moderate economic growth in the nation in 2005 and 2006 – and there are many uncertainties about the national economic forecast.**”²

Historical Growth Rates

Recent historical sales tax revenue data provides guidance for forecasting near-term future conditions. The California Board of Equalization maintains data on the actual taxable sales in all California counties. This data includes both inflationary and real growth. Between 1966 and 2003 (the last full year for which data is available), taxable sales have grown an average of 8.17% in Marin County. The average rate for the 20-year period from 1984 to 2003 is 4.89%. However, since 2001, the average rate has been –1.36%, due in large part to the economic downturn since the dot-com bust. The following chart shows the volatility of taxable sales growth rates in Marin County since 1966.



¹ Center for the Continuing Study of the California Economy, *California County Projections*, 2005 Edition, p. 6-24.

² Center for the Continuing Study of the California Economy, *California County Projections*, 2005 Edition, p. 1-4.

TAM Strategic Plan Sales Tax Forecasts

Low

The Low forecast assumes that neither real nor inflationary growth will occur. This forecast most closely conforms to the estimated tax receipts presented in the Expenditure Plan.³

Medium

The Medium forecast assumes that only inflationary growth will occur. The assumed rate of inflation is 2.5% per year.⁴ The California Transportation Commission assumes this inflation rate in the 2006 State Transportation Improvement Program Fund Estimate.

High

The High forecast assumes that a combination of real and inflationary growth will occur in each year of the tax. The estimated inflation rate is 2.5% per year, the same rate as in the Medium forecast. The estimated annual real growth rates range from 2.70% in Fiscal Year 2006 to 2.45% in FY2020. After FY2020, the real growth rate remains constant at 2.45%. These estimates have been derived from the Metropolitan Transportation Commission's (MTC) Transportation 2030 plan's assumptions for Transportation Development Act (TDA) revenue estimates. MTC based its TDA and sales tax growth rates on the CCSCE estimates.

TDA revenues are generated from each county's local tax transactions, which are based on place of sale. Transportation district tax revenues are based on place of use. As described by the State Board of Equalization (BOE), "Sales and use taxes are complementary taxes, i.e., when one tax applies, the other does not."⁵ Further, "For purposes of distributing the district tax, the tax generally follows the merchandise. That is, the tax is distributed to the district where the goods are delivered (and presumably used). District tax allocations are, therefore, affected by the definition of *place of sale*."⁶

Therefore, TAM's sales tax revenues – generated from a district tax as described above—will include out-of-county auto and boat sales, for example, while the TDA revenue – a component of the local sales tax – will not. This difference in calculation methodology means that the growth rates for TDA revenues and transportation sales tax revenues will differ slightly. However, the TDA estimates provide a reliable and recognized proxy for the magnitude and direction of growth in the transportation sales tax.

The Board of Equalization uses a conservative methodology for its allocations to new sales tax authorities. As a result, the early distributions, called advances, from the state to TAM tend to be lower than forecasts, with "clean-up" payments delayed until after the first three months of actual tax collections.

³ The Expenditure Plan's estimate of \$331.6 million in sales tax revenues is net of expenses for administration, debt service and bond issuance costs. (P. 2 of Expenditure Plan)

⁴ US Department of Commerce Bureau of Economic Analysis implicit price deflator rate for state and local government purchases

⁵ California Board of Equalization, "Tax Information for City and County Officials," p. 2.

⁶ California Board of Equalization, "Tax Information for City and County Officials," p. 12.

Recommendation

The Low forecast is conservative, and presents a prudent forecast for a new agency and new tax. Due in part to the uncertainty of future economic conditions, the lack of a district tax revenue history in Marin, and the different rules used to calculate a transportation sales tax, using the Low forecast would assist TAM with ensuring that its planned allocations to the Strategies do not outpace revenues, particularly in the near term.

The biennial Strategic Plan updates will provide TAM with an opportunity to revise the sales tax forecasts. Actual revenue and expenditure data will be added to the forecast, which, through the effects of compounding, could impact future revenue estimates. Revised economic analyses could suggest that more robust growth forecasts should be applied at that time.